

SECOND REPORT

21 October 1992

SELECT COMMITTEE ON  
SCIENCE AND TECHNOLOGY

CLASSIFICATION OF DEFENCE  
R&D EXPENDITURE

GOVERNMENT RESPONSE

TO THE THIRD REPORT OF THE  
SELECT COMMITTEE (Session 1991-92)

*Ordered to be printed 28 October 1992*

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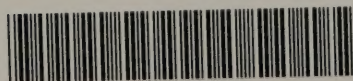
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# SECOND REPORT

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28 October 1992

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By the Select Committee appointed to consider Science and Technology.

## ORDERED TO REPORT

### CLASSIFICATION OF DEFENCE R&D EXPENDITURE

1 The Committee have received the Government's Response to their Third Report of last session on the classification of defence research and development expenditure. In view of the interest which the original report engendered, the Committee have agreed to publish the Response to make it more widely available.

2 The Committee welcome the importance which the Government attaches to accurate statistics on research and development, and their avowal to improve their accuracy and integrity (Response paras 1 and 8) and to improve alignment with Frascati definitions (Response para 3); the Government's recognition of the need to disaggregate defence and civil research and development statistics in statements and Ministerial speeches (Response para 11); and their agreement in principle to lay the reports of the 1990 survey of intramural defence research and development and of the Tripartite Working Group on extramural research and development in the Libraries of both Houses in due course (Response para 7).

3 The Committee make the following further observations:

- (i) MoD are reluctant to rely on the results of their 1987 survey of intramural and extramural research as a basis for estimating the level of overstatement of defence research and development expenditure (Response paras 3-4). But the survey did cover all intramural expenditure and projects to the value of half of all MoD extramural expenditure. Therefore, the National Audit Office (NAO) took the view that although the results should be treated with caution, they were sufficiently robust for extrapolation.
- (ii) MoD's 1990 survey of intramural research, the preliminary findings of which were seen by NAO and showed an even larger discrepancy in intramural spending than that revealed in 1987, is still not complete (Response para 6). We are dismayed that progress has been so slow and wish to see an early conclusion.
- (iii) MoD's commitment to improving performer-based extramural statistics to form the basis of a statistical adjustment to their funder-based statistics, as we suggested, appears to us to be weak (Response para 10).

4 The Committee find some comfort in the knowledge that, in accordance with standard practice, NAO will be able to maintain a watching brief in this area.





**Government Response to the House of Lords Select Committee  
Report on Classification of Defence R&D Expenditure  
(Third Report, Session 1991-92, Paper 47)**

1 The Government agrees with the Select Committee on the importance of accurate statistics on research and development (R&D). There are conceptual and practical difficulties in R&D statistics and these are usefully discussed in the Select Committee's Report. The Government is constantly looking for ways to improve their accuracy and integrity.

2 More detailed comments on the Select Committee's Report and recommendations are as follows:

***The NAO Report***

3 The Government has welcomed the NAO report as a helpful elucidation of the problems faced by those who aim to improve R&D statistics. However, it feels that the report gives undue prominence to the surveys carried out within the MoD in 1986 and 1987. The Government does not agree that the survey results were sufficiently robust to indicate by extrapolation the extent to which published statistics might be affected by any overstatement in MoD's R&D statistics. In its evidence to the Select Committee, the Government acknowledged that there are elements of intramural and extramural R&D recorded by MoD which are not within the Frascati definition but also elements of expenditure recorded as production which properly fall within the Frascati definition. As yet, there is no sufficiently reliable basis on which to make more precise estimates of MoD's R&D expenditure, though work is in hand to improve the alignment with the Frascati definitions.

4 The Government notes the regret of the Select Committee (paragraph 3.3) that the MoD did not mention the 1987 survey when it gave evidence to the Committee in February 1990. This evidence did refer to ongoing work to investigate and if possible improve the estimates of R&D expenditure: the 1987 survey and follow-up work formed part of this. However, work carried out after the 1987 survey confirmed that it did not provide a sufficient statistical basis to make an estimate of the level of overstatement. There were problems of coverage and accuracy of recording and these made it unsound to base estimates on the survey results.

***Availability of Reports***

5 The Select Committee has recommended (paragraph 3.5) that the reports of the 1990 survey of intramural R&D and the Tripartite Working Group on Extramural R&D be deposited in the Libraries of both Houses of Parliament.

6 The survey of intramural R&D was not completed in 1990 and the figures quoted in the NAO Report were partial and provisional. Work to complete the survey and to develop a robust system for the production of improved intramural R&D estimates is still being carried out. The results of this work, including a description of the new methodology, will be made available when completed. It is hoped that the final report of the Tripartite Working Group will be produced later this year. Subject to consultation with the non-Government members of the Working Group, copies of this report will be made available.

***Quality of the Statistics***

7 The Government accepts the need to review and where possible improve the quality of its estimates of MoD funded R&D. As the NAO Report recognises, the Government is already devoting considerable effort to this end. The processes involved are complex and time consuming and, in part at least, rely on the support of defence contractors. We note the Select Committee Report's recommendation (paragraph 3.9) that MoD should intensify its effort to improve the quality of their reporting. The work will proceed as a matter of priority.



### ***Progress on Extramural R&D***

8 The Select Committee Report states (paragraph 3.11) that MoD has concluded that internally held knowledge is insufficient to improve the extramural R&D estimates, and observes (paragraph 3.18) that MoD appears to have abandoned hope of improving from within the department its reporting of extramural expenditure. MoD has not ruled out making some improvements by utilising internal information.

9 The main efforts are being directed at the information that might be available from the performers of R&D. The suggestion made in the Select Committee Report (paragraph 3.19) that performer-based extramural statistics should be improved to form the basis of a statistical adjustment to MoD's funder-based statistics is noted. The Government believes that further consideration should be given to all possible avenues for improvement - including refinement of MoD's funder-based data - before deciding on the most appropriate method and the CSO are pressing ahead with improvements to the clarity of their notes to their survey form and are improving their direct contacts with the data providers.

### ***Disaggregation of Civil and Defence R&D***

10 As noted in paragraph 3.21 of the report, the 1991 Annual Review separately identified expenditure by civil and defence Departments in the GERD (Gross Domestic Expenditure on Research and Development) matrix, and in the surveys of R&D performed in industry. In the 1992 Annual Review the Government has continued this practice. The CSO has been publishing separate figures for civil and defence R&D statistics since the business sector form was modified for the 1989 returns, and will continue to do so in future. Separate figures have also been supplied in returns to international organisations. The Government notes the Committee's view that disaggregation of defence and civil R&D statistics should be reflected in Government statements and Ministerial speeches. It agrees it is helpful to make the basis of R&D statistics clear when they are used.





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